



# Cycle to Work for Individuals

## A guide for employees

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08 January 2020

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# Contents

|  |   |
|--|---|
| Introduction   | 1 |
| Ways a company can help staff to obtain a cycle            | 1 |
| Salary Sacrifice   | 2 |
| What is salary sacrifice?                                  | 2 |
| How salary sacrifice works                                 | 2 |
| Who is the “provider”?                                     | 3 |
| What about the £1,000 limit?                               | 3 |
| Tax Exemption  | 3 |
| Why is it cheaper for the employee?                        | 4 |
| Who can get a bike with Cycle to Work?                     | 4 |
| The process  | 5 |
| Getting started  | 5 |
| Ensure eligibility   | 5 |
| Find out about the company scheme                          | 5 |
| Andy uses the Cycle to Work Scheme (part 1)                | 5 |
| Making the Agreement                                       | 6 |
| Can I hire more than one bike (enter into two agreements)? | 6 |
| Who owns the bike?   | 6 |
| Getting the bike   | 6 |
| Andy uses the Cycle to work scheme (part 2)                | 6 |
| End of the hire period                                     | 7 |
| Buying the package   | 7 |
| Andy uses the cycle to work scheme (part 3)                | 7 |
| Glossary   | A |



# Introduction

## Understanding what cycle to work is

There are many stories and rumours regarding cycle to work schemes. This guide is aimed at Employees to help understand what the situation actually is.

The Government has decided that it would like people to be able to cycle to work. It recognised that one of the biggest obstacles to cycling is the cost of buying the cycle in the first place. So, it put in place financial mechanisms to help employees overcome this initial obstacle.

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## Ways a company can help staff to obtain a cycle

|                                |  |
|--------------------------------|--|
| Salary Sacrifice Scheme        | This is the classic “Cycle to Work” scheme. The Employer loans the employee a cycle, paid for from the employee’s gross salary.                |
| Loan (including interest free) | Loan from company to staff members that can be used to buy a cycle or a public transport season ticket. This will not be covered in the guide. |
| Pool cycles                    | The company buys a fleet of cycles and makes them available to staff. This may be the only option for staff on minimum wage or under 18.       |

When people talk about a “Cycle to work scheme” they are usually referring to a salary sacrifice scheme. How salary sacrifice works is the main focus of this guide.



# Salary Sacrifice

## What is salary sacrifice? How does it work? Who can take part?

### Read on to find out.

Salary sacrifice can sound complex, there are many different providers whose procedure varies slightly. The fundamentals, and the financial implications, are the same regardless of who is providing the scheme.

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## What is salary sacrifice?

Salary sacrifice is a financial tool that helps employees take possession of a cycle, reducing both the up-front and total costs of buying the bike.

Put simply, it is a loan. The provider buys the cycle on behalf of the employee and then loans it to them. The

employee pays for it from their gross salary, which makes the overall cost of the cycle lower.

It usually operates as a scheme operated by the employer or an external provider.

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## How salary sacrifice works

The basic procedure is this:

- 1 You choose a cycle and accessories (the package) from an approved supplier
- 2 The scheme provider buys the package on your behalf
- 3 They loan it to you for a set period of time (hire period)
- 4 You pay off the value of the package in instalments from their gross salary (repayment period)
- 5 You are taxed on what is left of your salary **after** the instalments are deducted
- 6 At the end of the loan period, you may enter into an agreement with the provider to buy the package.

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## Who is the “provider”?

There are two ways a scheme can operate:

- 1 The company is the provider and operates the scheme. In this case they buy the package and loan it to the employee.
- 2 Using an external scheme provider. The provider buys and owns the package, makes the agreement with the employee but is paid by the employer.

The provider is the term used for whoever is operating the scheme.

Most employers choose to use an existing scheme provider.

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## What about the £1,000 limit?

Sooner or later, every conversation about Cycle to Work Schemes comes round to the topic of how much can be spent on the package and particularly the £1,000 ceiling.

The nature of the Cycle to Work Scheme means that the loan will constitute a consumer hire agreement, which is covered by the Consumer Credit Act. This may require the provider authorisation to hire cycles from the Financial Conduct Authority (FCA)<sup>1</sup>.

As long as the provider has this authorisation, **there is no limit on the value of the package**, providing any repayments do not take the employee below the Minimum Wage.

There is an exemption under the Financial Services and Markets Act 2000, usually referred to as the FSMA order). This means a scheme can be offered without FCA authorisation, as long as the value of the package does not exceed £1,000.

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1 <https://www.fca.org.uk/firms/authorisation/fee>

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## Tax Exemption

One of the selling points of salary sacrifice is that it saves both the employer and the employee money because it is tax exempt.

### Qualification for exemption

In order to benefit from a tax exemption, the Scheme must meet these criteria<sup>2</sup>:

- 1 An employee must not, at any point during the hire period, own the cycle;
- 2 At least 50% of the cycle's use must be for 'qualifying journeys', i.e. commuting to work or business journey purposes<sup>3</sup>;
- 3 The offer of the use of hired cycles must be made available across the whole workforce, with no groups of employees being excluded. This does not necessarily have to be through a salary sacrifice arrangement in each case.
- 4 It must be used to hire a cycle, which is classed as: 'a bicycle, a tricycle, or a cycle having four or more wheels, not being in any case a motor vehicle' (Section 192(1) of the Road Traffic Act 1988 (c.52)). An Electrically Assisted Pedal Cycle (EAPC) can be included under the scheme.

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2 <http://www.legislation.gov.uk/ukpga/2003/1/section/244>

3 HMRC guidance: Accept that the test is satisfied unless there is clear evidence to suggest that less than half of the use of the cycle or equipment is on qualifying journeys.

## Why is it cheaper for the employee?

The instalments are paid from your gross (pre-tax) salary. So you pay no tax on the money that pays off the cost of the package.

| Tax rate    | Income Tax | National Insurance Contribution (NIC) | Total tax saving |
|-------------|------------|---------------------------------------|------------------|
| Basic Rate  | 20%        | 12%                                   | 32%              |
| Higher Rate | 40%        | 2%                                    | 42%              |

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## Who can get a bike with Cycle to Work?

An offer of a hire bike must be extended to all members of staff. You are not eligible for salary sacrifice if:

- 1 If the sacrifice would take you below minimum wage.
  - 2 If you are under 18
  - 3 If you are self-employed
- A company that offers Cycle to Work via salary sacrifice, but has ineligible staff, must have an alternative arrangement in place to “make cycles available” to those staff. This usually involves having a pool of cycles available for a small fee.



# The process

## How it works

The process of getting a cycle through a Cycle to Work Scheme can seem pretty complicated, but it should be fairly simple.

While providers run their scheme in slightly different ways, they all run through the same basic process.

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## Getting started

### Ensure eligibility

The first thing you need to do is check you are eligible for salary sacrifice. If not, stop now and ask your employer what alternative arrangements they can make.

### Find out about the company scheme

Where a company uses an external provider, find out who that provider is and how they operate.

Many providers have arrangements with particular retailers. Some are more limited than others (that breadth can be used as a selling point for providers). This places a limit on which cycles can be obtained through the scheme.

### Choosing a package

It is really important to check whether the cycle you want is available through the retailers that can be accessed through the provider. If not, look at what is available or attempt to persuade your employer to open a scheme with another provider that gives you access to the cycle you want.

#### EXAMPLE

### Andy uses the Cycle to Work Scheme (part 1)

Andy is a part-time employee of Associated Holdings Ltd. As an employee earning £21,000 (pro rata) he is eligible to use salary Sacrifice Scheme.

Andy starts by finding out if his company has a Cycle to Work Scheme. The company uses an external provider called the Green Cycle Company. Andy uses the provider's website to find out which retailers he can get his bike from.

He selects a retailer, called Harry's Bikes, and selects his dream bike from their catalogue. He adds mudguards, a pannier rack and some panniers. The total Package comes to £1,400. He gets a written quote from the Harry's Bikes, **including their commission** for using the scheme.

This is the time to go and talk to a retailer, look at the cycle and ask for a quote for what the cycle and any additions will cost. You will need this for talking to the scheme provider.

Some retailers charge a commission for Cycle to Work to cover the admin that goes with the scheme, make sure you know what that is going to be and factor it into your budgeting.

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## Making the Agreement

Once a package has been selected, you will make an agreement with the provider to hire a cycle. The agreement usually covers:

- 1 The full value of the package, including any fees or commission.
- 2 The repayment period and what the repayments are.
- 3 The hire period and what happens at the end of the hire.

Government guidance says there must be “no option, whether express or implied, as part of, or alongside the initial hire agreement for the employee to purchase the cycle or equipment at the end of the hire agreement.” So the option to buy the package afterwards will not appear in the agreement.

The repayment period (the time over which you repay the value of the package) and the hire period (the period during which the provider owns the package) do not need to be the same.

### Can I hire more than one bike (enter into two agreements)?

Yes. So long as both meet the criteria (both are used for commuting and business) and the repayments do not take you below the minimum wage.

### Who owns the bike?

This is really important: the whole package remains the property of the provider until the end of the hire period.

### Getting the bike

Once the agreement has been signed (copies are usually sent to the employer to set up the repayments), the provider will issue you with a voucher for the value of

the package. Alternatively, they may send it direct to the retailer.

#### EXAMPLE

### Andy uses the Cycle to work scheme (part 2)

Andy goes back to the provider with the quote from Harry's Bikes. They offer 18 monthly repayments of £77.78, or 12 monthly repayments of £116.67. Andy takes the 12 month option.

He signs an agreement that he will sacrifice £116.67 from each month's salary for the next 12 months. He will hire the bike and the accessories for 5 years after which they will make a new agreement on what happens next to the package. The agreement is sent to the Green Cycle Company who will pay the retailer. It is also sent to Associated Holdings, who will pay the Green Cycle Company and collect the instalments from Andy.

The Green Cycle Company gives Andy a voucher which he takes back to Harry's Bikes. They do the necessary admin and build Andy's dream bike, complete with mudguards, panniers and rack.

Two weeks later, Andy goes into Harry's Bikes and collects his dream bike. The next day, Andy rides into work!

You take the voucher to the retailer and exchange it for the bike and any accessories. There is usually a short period while administration around the transfer of money is arranged.

Then you collect the bike and ride it to work!

## End of the hire period

At the end of the hire period, you have 3 options:

- 1 Extend the hire agreement (keep hold of the package for longer)
- 2 Return the package to the employer
- 3 Enter into a new agreement to buy the package

## Buying the package

If you buy the package from the provider at the end of the agreement, the package must be bought for a Fair Market Value (FMV) which is set out by the government:

| Age of cycle   | Original price of the cycle less than £500 | Original price £500+ |
|----------------|--|----------------------|
| 1 year         | 18%  | 25%                  |
| 18 months      | 16%  | 21%                  |
| 2 years        | 13%  | 17%                  |
| 3 years        | 8%   | 12%                  |
| 4 years        | 3%   | 7%                   |
| 5 years        | Negligible                                 | 2%                   |
| 6 years & over | Negligible                                 | Negligible           |

If a FMV is not charged, the sale counts as a benefit in kind (and is taxed as such).

So, extending the loan period is often good value because, eventually, the bike's value is negligible. Some schemes ask for a refundable deposit to extend the loan period.

## Changing job

If you leave your job during the repayment period the employer will ask for the balance of payments, taken from your net salary (so you get taxed on it). They may also ask for the FMV of the package as well.

You can choose to give the package back and pay no more.

### EXAMPLE

#### Andy uses the cycle to work scheme (part 3)

After a year of riding to work, Andy has paid off the package. If he changed jobs after this point, he would be free to, as his agreement is with the Green Cycle Company (the provider). He decides to stay with Associated Holdings.

After five years of happy cycling, Andy's agreement comes to an end. At this point, the Green Cycle Company offer Andy three options. He can give the bike back, which he chooses not to do. The second option is to enter into a new agreement with the provider to buy the bike. After 5 years it's worth 2% of its original value: £28. Instead, he takes up their offer to extend the hire for another year, and pays a deposit.

A year later the package is worth a "negligible" amount, so Andy pays the Green Cycle Company £1 to take ownership of the bike.

This ends Andy's involvement with the scheme.

If you leave your job after the repayment period (but during the hire period) you don't owe anything, but the package is still property of the provider as if you were still working for your old employer. So, make sure you keep your paperwork for the end of the period so you can make arrangements to transfer ownership of the package.





# Glossary

## Some of the terms used in this document and an explanation

| Term             | Meaning   |
|------------------|---|
| CCA              | Consumer Credit Agreement. The technical term for any kind of repayment scheme when buying something. |
| EAPC             | Electrically Assisted Pedal Cycle. Commonly known as an e-bike  |
| FCA              | Financial Conduct Authority. The regulator for all things financial                                   |
| FMV              | Fair Market value. A government-defined value of an object after a certain number of years.           |
| FSMA             | Financial Services & Marketing Act 2000   |
| Hire Period      | the period during which the provider owns the package   |
| HMRC             | Her Majesty's Revenue & Customs   |
| NIC              | National Insurance Contribution   |
| Provider         | The organisation that runs the Cycle to Work Scheme the employer offers                               |
| Repayment period | The time over which the employee repays the value of the package                                      |
| Salary Sacrifice | The process by which Cycle to Work Schemes work   |